**********MIXED CTY 20814
29389 01 52 0691 L1046 JUN90
SRI ACQUISITIONS #0937
ACQU EDITOR SRI NPN
CONGRESSIONAL INFO SERVICE C
4520 EAST-WEST HWY STE 800
BETHESDA MD 2081

I-08902

NPN
NATIONAL PETROLEUM NEWS
Established in 1909

VOL. 82 NO. 6

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Editor's Viewpoint

Like a bad penny, the idea of raising gasoline taxes to cut the deficit keeps turning up. Most recently, it was proposed as part of the latest deficit reduction plan by none other than Dan Rostenkowski (D-Ill.).

You'll recall that Rostenkowski was an architect of the tax revision plan which ended the tax deduction for IRA's, one of the few tax breaks for the average person. That tax revision also lowered individual income tax rates as a trade off to eliminate most other tax deductions for average taxpayers except for mortgage interest. Not a bad idea in itself. But the ink was hardly dry on the new tax law before "Rosty" was hinting that the lowered rates might have to be raised. Voters, however, didn't buy that ruse, so there's always a search for other taxes to raise—like the gasoline tax.

It's unfair to single out Rostenkowski. He's not alone. But he's representative of legislators with a particular mind set. It doesn't seem to matter to them that most Americans oppose higher gasoline taxes. Nor does it matter that federal and most state gasoline taxes are supposed to be earmarked for building and maintaining roads and bridges and highways.

They seem equally unconcerned that it is a regressive tax, one that's felt most by people in fixed income or low income groups. They're not bothered that it also has a disproportionate regional impact: gasoline consumption in southern and western states is higher than in other areas so motorists in these states pay a higher portion of the "deficit reduction" tax. The same is true of rural areas, where more gasoline is consumed than by people in cities. In addition, government and private studies have shown that increasing the gasoline tax would lower GNP, raise unemployment and boost inflation. Meanwhile, jobbers and others in the oil industry pay a price, not so much in money, but because they're associated with high gasoline prices. I'm always amazed how few people realize how much of the price they pay for gasoline is federal, state and local taxes.

The good news is politicians who think this way are feeling a lonely. The Highway Users Federation, for instance, reports that not only are more than two-thirds of Americans against higher gasoline taxes, but last year over 230 members of the House of Representatives opposed using gasoline taxes to cut the deficit and the Senate also opposed it in its 1990 budget legislation. Rostenkowski's proposal this year didn't do much better. At last report, it hadn't received rave reviews and according PMAA had gone from the bang to "the whimper stage" with little chance of being adopted. The real question now is how long it will take for lawmakers like Rostenkowski to get into the mainstream and away from the atrophied ideas of the past.

—Frank M. Victoria

NPN—National Petroleum News (ISSN 0149-5267) is published monthly (except semi-monthly in June) by Hunter Publishing Limited Partnership, 950 Lee Street, Des Plaines, Illinois 60016, (708) 296-0770.

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Second class postage paid at Des Plaines, Illinois and additional mailing offices.

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Postmaster: Send address changes to NPN—NATIONAL PETROLEUM NEWS, 950 Lee Street, Des Plaines, Illinois 60016

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New Mexico's hotly-competitive retail gasoline market is now under scrutiny by the state's district attorney. One intriguing question: Why are retail prices as much as 25¢/gal. higher in Santa Fe than nearby Albuquerque?

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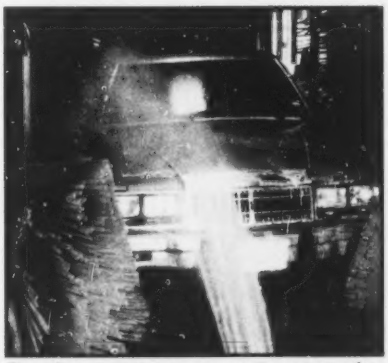

Growing concern over water conservation and detergent/chemical disposal has sparked interest—and debate—in water reclaim systems for car washes.

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Hiring, training and holding onto good employees is a major challenge for today's marketers, made more difficult by a shrinking work force, new technology and declining work ethic.

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Feds Target, Crack Down On Octane Rating Cheats

Gasoline tax cheats, and others guilty more of sloppy marketing practices than anything else, stand accused by the federal government of chiseling on the octane quality of their motor fuels. Motorists, it was claimed, are being bilked as much as $600-million a year in their retail fuel purchases.

A study by the General Accounting Office contends that 9% of gasoline sold is being shortchanged by at least a half octane number. In Michigan, it was alleged, 52% of the samples tested were off about two points—the difference between unleaded regular and unleaded midgrade. The GAO said octane-short sales are so common that some retailers often sell regular grades as premium fuels.

Industry reaction was swift. The American Petroleum Institute, Society of Independent Gasoline Marketers of America and Petroleum Marketers Assn. of America said they were "extremely disturbed" by the GAO report and if the integrity of the labeling systems is intentionally violated, the perpetrators should be prosecuted. The three associations said they are willing to cooperate with the EPA and Federal Trade Commission as well as state governments to insure the integrity and accuracy of the system.

PMAA's Phillip Chisholm said, "The great majority of petroleum distributors and service station operators in this country are honest, hard-working people. They are largely family-owned businesses and they have close ties to their communities and to the customers they serve. They strongly oppose the illegal actions of a few unscrupulous individuals who engage in illegal practices and, in the process, damage the reputation of the many thousands of legitimate marketers."

It must be noted, however, that the GAO report said illegal sales were spotted in more than half the states, and 9% of U.S. gasoline sales equal roughly 10-billion gal.—indicating there are more than only "a few unscrupulous individuals."

The GAO report indicated that the opportunity for mislabeling appears to be greatest in the distributor and retail levels and that it occurs far less frequently in the 22 states which have octane-testing programs. A provision in the federal government's petroleum marketing laws deals with gasoline mislabeling, but that hasn't been enforced since 1981 due to a lack of funding.

The GAO report pointed out that in Michigan, one of the states without its own testing program, stations that were checked had octane levels about two points below what was posted on the pump.

States that do not have their own testing programs—and therefore can be considered more vulnerable to such octane cheating—are these: Alaska, Arizona, Connecticut, Hawaii, Idaho, Indiana, Kansas, Kentucky, Ohio, Maine, Michigan, Minnesota, Mississippi, Montana, Nebraska, Nevada, New Hampshire, New Jersey, New York, Oregon, Pennsylvania, Rhode Island, Texas, Utah, Vermont, West Virginia, Washington and Wyoming.

Wide-Ranging Results In First Quarter Earnings

The old Wall Street phrase "mixed bag" is a good description of corporate and downstream earnings of the top oil companies in the first quarter this year.

Percentage-wise, the earnings and losses ranged from 243.8% (Murphy) for the high side and 82% drop (Amerada Hess) for the low side. On a dollar-for-dollar basis, however, the perspective is different. Murphy's 243.8% increase, for example, involved $16-million while Hess's loss equaled $180-million. Here are two more examples: Texaco's minus sign meant $1.1-billion while Exxon's erosion equaled $530-million.

Here's a traditional bird's eye view of the numbers:

First Quarter 1990

UPSTREAM

(Add 000)

Company	1st. Qtr. 1990	1st. Qtr. 1989	% Chng.
Exxon	$1,280.0	$1,810.0	(29.2%)
Mobil	400.0	429.0	(5.6)
Chevron	473.0	313.0	51.1
Amoco	466.0	458.0	1.7
Shell	203.0	362.0	(43.9)
Texaco	328.0	1,460.0	(77.5)
BP-America (a)	732.0	569.0	28.6
Arco	547.0	704.0	(22.3)
Phillips	259.0	190.0	36.3
Conoco	197.0	217.0	(9.2)
Unocal	77.0	87.0	(11.5)
Marathon *	242.0	241.0	0.4
Sun	71.0	81.0	(12.3)
Coastal	75.6	60.4	25.2
Amerada Hess	39.7	220.2	(82.0)
Pennzoil	33.7	52.5	(37.7)
Ashland **	913.0	(13.8)	–
Kerr-McGee	27.1	63.9	(57.6)
American Petrofina	26.2	48.7	(46.2)
Murphy	22.0	6.4	243.8
Citgo	46.3	48.8	(5.1)
Diamond Shamrock	4.3	14.9	(71.1)

* Operating income, not net; ** Second quarter and first half, fiscal ends 9/30; first half totaled $22.5-million vs. $82.1-million, a decrease of 72%.

(a) BP/London is reorganizing its reporting procedures and from now on will include BP-America in its BP-Group, USA Segment, rather than as a national company.

DOWNSTREAM

(Add 000)

Company	1st. Qtr 1990	1st. Qtr. 1989	% Chng.
Chevron	130	50	160
Domestic	59	7	743
Foreign	71	43	65
Exxon	191	171	9
Domestic	(28)	37	–
Foreign	219	138	59
Mobil	92	109	(17)
Domestic	39	69	(43)
Foreign	53	40	13
Amoco	111	114	(3)
Shell	(21)	113	–
Texaco	136	137	–
Domestic	30	37	(19)
Foreign	106	100	6
BP-America	NA	NA	NA
Conoco	81	71	14
Marathon	77	66	16
Sun	29	79	(63)
Domestic	25	67	(63)
Foreign	4	12	67

● TRENDS

Reformulated Gasolines: A Solution Or A Problem?

Reformulated gasolines—some not so reformulated—are springing up all over, stirring up gasoline competition and sending some oil companies back to refinery drawing boards. Reformulated gasolines are also laying the foundations for possible future public backlash and other serious complications. Reformulated gasolines could, in fact, create more problems than they solve.

In quick succession from last September until this May, seven oil companies introduced reformulated gasolines: Arco, Diamond Shamrock, Phillips, Marathon, Conoco, Shell and Exxon. More were surely on the way.

Some of the new gasolines, such as Arco's EC-1, are considerably changed from typical formulations, with lower amounts of aromatics, olefins, benzene, sulfur, butane and addition of oxygenates, usually methyl tertiary butyl ether (MTBE). But some aren't much changed, such as Exxon's, which in almost all cases simply has lower reid vapor pressure (RVP).

These products have been generally greeted favorably by the public, lawmakers and environmental officials, who feel it is a step in the right direction, though not a total solution to air pollution. All oil companies, including those who have introduced reformulated gasolines, accept that these products are interim steps.

Apparently exercising restraint, some companies are deliberately avoiding the claim of "reformulation," even though they are making certain changes in their gasolines. An example is Amoco, which is voluntarily lowering RVP requirements in Chicago and some Midwest areas without any mention of reformulation.

Some companies, such as Unocal, have decided to make no gasoline changes pending the outcome of fuel and engine research being conducted jointly by 14 oil companies and the three major U.S. car manufacturers. Preliminary results are expected later this year and further results over the next three years.

With newly tailored gasolines rolling out in greater quantities and over broader areas, the inability of refineries to make big changes is resulting in minimal reformulations. This is causing concern in some oil circles that reformulated gasoline might lose public confidence. Some fear that if people get the impression they're being bamboozled, there could be a serious backlash against oil companies and the new gasolines.

Reformulated gasolines are an attempt to head off alternative fuels, at least for now. The fear is that a backlash may not only set the public against gasoline but also prompt punitive legislation, forcing alternative fuels into the market even faster than planned.

There was further concern of backlash if some of the worst gasoline pollutants removed from reformulations were discovered to be turning up in other gasolines and other areas: aromatics, olefins and benzene, for example. Surplus butane found other markets as lower gasoline volatility (RVP) was ordered in some areas.

On the economic side, reformulated gasolines cost more to make. Manufacturing enough ultra-clean reformulated gasoline to market widely would cost many billions of dollars in refinery improvements—one estimate is $100-billion. Reformulated gasolines in many cases cease to be fungible, that is, not meet generic industry standards, which would limit or eliminate the opportunity for exchanges with other oil companies, and it could not be shipped by pipeline, forcing the use of more expensive means of transportation.

If environmental agencies demand cleaner fuel than gasoline, or if reformulated gasolines get too expensive or complicated to make and market, or if motorists turn against reformulated gasoline, alternative fuels could come on faster than almost anyone has anticipated.

Perhaps most importantly, a stern economic fact confronts all oil refiners: How much are they willing to spend on reformulated gasoline before beginning to invest seriously in alternative fuels?

—Mark Emond

● MARKETPLACE AT A GLANCE

AVERAGE GASOLINE PRICES IN THE U.S. (per gal.)

March	Gasoline (All types)	Leaded Regular	Unleaded Regular	Unleaded Premium
U.S. City Avg.	$1.076	$0.999	$1.023	$1.218
REGIONS				
Northeast	1.104	1.088	1.023	1.242
North Central	1.061	1.006	1.017	1.266
South	1.080	1.015	1.023	1.193
West	1.059	0.989	1.032	1.232

Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

STOCKS (Add 000 bbl.)

	5/4/90	5/5/89
Gasoline (Total)	219,223	222,644
Gasoline (Unleaded)*	168,070	155,813
Jet Kerosine	41,094	38,141
Distillates	96,909	95,763
Residual	43,436	39,872

**Included in gasoline total.*

Source: American Petroleum Institute.

CORRECTION: In our May issue, typesetting errors were present in the statistical tables printed with the article (beginning on page 38) reporting on the results of our jobber survey. Responses were broken out by *monthly gallonage*. However, the tables showed this as *gallons per year (Gal./yr.)*. Also, dollar signs were in front of some of the gallonage figures in the tables, indicating they were monetary measurements instead of gallonage measurements.

All but the first table included these errors. Following is one of the tables as it appeared and then a corrected version of that table. Note that in the corrected table the line reading "Respondents Doing (Gal./yr)" should be "Respondents Doing (Gal./mo.)," and that the dollar signs have been removed to show that they are gallonage figures and not monetary figures. These corrections apply to all of the tables in the article except the first one, which was printed correctly.

(Incorrect)

Table 4—Average Gross Profits-1989

Gasoline (Cents/Gal.)	5¢-5.9¢	6¢-9.9¢	10¢-14.9¢	15¢+
All Respondents (239)	52	118	59	10
(100.0%)	21.8%	49.4%	24.7%	4.2%
Respondents Doing (Gal./yr.):				
Under 500,000	19.5%	52.3%	25.0%	3.1%
500,000-749,999	25.9	37.0	22.2	14.8
750,000-999,999	35.7	42.9	14.3	7.1
$1M-$1.24M	30.4	52.2	17.4	—
$1.25M-$1.49M	28.6	14.3	42.9	14.3
$1.5M-$1.9M	44.4	11.1	44.4	—
$2M-$2.49M	—	66.7	33.3	—
$2.5M or more	5.0	75.0	20.0	—

C-Store	1-23%	24-27%	28-31%	32-34%	35-40%
All Respondents (145)	28	29	51	17	20
(100.0%)	19.3%	20.0%	35.2%	11.7%	13.8%
Respondents Doing (Gal./yr.):					
Under 500,000	23.0%	19.7%	37.7%	6.6%	13.1%
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750,000-999,999	12.5	—	37.5	37.5	12.5
$1M-$1.24M	16.7	11.1	44.4	11.1	16.7
$1.25M-$1.49M	16.7	50.0	33.3	—	—
$1.5M-$1.9M	14.3	14.3	57.1	14.3	—
$2M-$2.49M	16.7	33.3	16.7	—	33.3
$2.5M or more	11.1	27.8	22.2	27.8	11.1

(Correct)

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1.25M-1.49M	16.7	50.0	33.3	—	—
1.5M-1.9M	14.3	14.3	57.1	14.3	—
2M-2.49M	16.7	33.3	16.7	—	33.3
2.5M or more	11.1	27.8	22.2	27.8	11.1

AOP Notes

Pennzoil Co. announces the following promotions: **David Alderson**, treasurer, was named senior vice president, finance and treasurer; **Terry Hemeyer**, vice president, public affairs, was named senior vice president, administration; **Mark Malinski**, corporate secretary, was named senior vice president, accounting and controller; and **James W. Shaddix**, assistant general counsel, was named general counsel. All four will report to **James L. Pate**, who was elected executive vice president and CEO, responsible for all operating divisions and corporate functions of Pennzoil Co and its subsidiaries and affiliates. Pate, a 14-year Pennzoil veteran, has served in the positions of vice president and chief economist, treasurer, and senior vice president of finance. In 1974, he served as President Ford's Assistant Secretary of Commerce, and subsequently was appointed a special advisor to the White House.

J. Don Langston, formerly vice president of exploration for Exxon U.S.A., has been appointed chairman of the board of Fairbanks & Haas, Inc., an independent oil and natural gas company headquartered in Ventura, Calif. Langston will play an active role in the analysis and selection of potential drilling projects for the company.

Terrance R. Weaver has been named vice president of marketing operations, west zone, for Amoco Oil Co., succeeding **R.D. McMullen** who retired. In his new position, Weaver will manage and direct Amoco's marketing operations in 15 states. During Weaver's 20-year career with Amoco, he served as manager of reseller/jobber light oils, manager of Amoco's Ft. Lauderdale, Fla., marketing district, business manager of light oils for Amoco Oil's marketing department and most recently as manager of Amoco's Mandan, N.D., refinery.

O & E People

Greg Campbell has been appointed customer service manager for Universal Valve Co., Inc., responsible for operations, management, distributor promotion and regional manager communications. Previously Campbell served as sales and promotion manager for a major Northeastern daily newspaper.

Manny Carter was appointed vice president in charge of the petroleum business unit for MPSI Inc., responsible for all activities worldwide including client relations, international marketing, new products and planning petroleum activities. Prior to joining MPSI, Carter was general manager of international marketing for Mobil Oil Corp.